88-644

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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1988

CALCO, LTD. and WILLIAM J. GARTNER,

Petitioners,

vs.

WATER TECHNOLOGIES CORPORATION, ET AL.

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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October 13, 1988

QUESTION PRESENTED FOR REVIEW

(1) Whether the court below impermissibly extended Lear, Inc. v. Adkins by permitting an exclusive patent licensee to assert the validity of patents and recover for patent infringement in the same action that it asserts a cross-claim against its licensor for invalidity of the patents with the latter claim supported by its sworn and uncontroverted interrogatory answer attesting to patent invalidity?

Subsidiary Question

(i) Whether the limitations of Fed.R.Civ.P. 11 incorporated with Fed. R.Civ.P. 8(e)(2) and 26(g) prohibit a patent licensee from pleading and responding to discovery requests supporting both the validity and invalidity of patents within the same action?

PARTIES INVOLVED

Pursuant to Supreme Court Rules 21 and 28.1, the parties involved in the proceedings before the United States Court of Appeals for the Federal Circuit were and are the following:

Calco, Ltd. and William J. Gartner, Defendants below and Petitioners herein.

Water Technologies Corporation and its wholly-owned subsidiary Water Pollution Control Systems, Inc., and Kansas State University Research Foundation, Plaintiffs below and Respondents herein.

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IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1988

No.

CALCO, LTD. and WILLIAM J. GARTNER,

Petitioners,

vs.

WATER TECHNOLOGIES CORPORATION, ET AL.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioners CALCO, LTD. (Calco) and WILLIAM J. GARTNER (Gartner) respectfully pray that a Writ of Certiorari is issued to review the Judgment and Opinion of the United

States Court of Appeals for the Federal Circuit entered in the above-entitled case on June 16, 1988.

OPINIONS BELOW

The Opinion of the Court of Appeals rendered June 16, 1988 is reported at 850 F.2d 660 (Fed.Cir. 1988) and included in the Appendix to this Petition at page A-1 to A-67. The Memorandum Opinion and Order of the United States District Court for the Northern District of Illinois entered on October 22, 1986 appears in the Appendix attached to this Petition.

JURISDICTION

The Judgment of the Court of Appeals was entered on June 16, 1988. A Petition for Rehearing was timely

filed on June 29, 1988. The Petition for Rehearing was denied by Order dated July 15, 1988 and appears in the Appendix. This Petition for Writ of Certiorari has been timely filed within 90 days thereafter. The jurisdiction of the Court is invoked pursuant to 28 U.S.C. § 1254(1).

STATUTES AND RULES INVOLVED

Federal Rule of Civil Procedure 8(e)(2):

> "A party may set forth two or more statements of a claim or defense alternately or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as the party has regardless of

> consistency and whether based on legal, equitable, or maritime grounds. All statements shall be made subject to the obligations set forth in Rule 11."

Federal Rule of Civil Procedure 11 in pertinent part states:

> "... The signature of an attorney or party constitutes a certificate by the signer that the signer has read the pleading, motion, or other paper; that to the best of the signer's knowledge, information, and belief formed after reasonable inquiry it is well grounded in fact and is warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law, and that it is not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation. ... If a pleading, motion, or other paper is signed in violation of this rule, the court, upon motion or upon its own initiative, shall impose upon the person who signed it, a represented party, or both, an appropriate sanction, which may include an order to pay ... reasonable expenses incurred because of the filing of the

pleading, motion, or other paper, including a reasonable attorney's fee."

Federal Rule of Civil Procedure 26(g) states:

"...The signature of the attorney or party constitutes a certification that the signer has read the request, response, or objection, and that to the best of the signer's knowledge, information, and belief formed after a reasonable inquiry it is: (1) consistent with these rules and warranted by existing law or a good faith argument for the extension, modification, or reversal of existing law; (2) not interposed for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation; and (3) not unreasonable or unduly burdensome or expensive, given the needs of the case, the discovery already had in the case, the amount in controversy, and the importance of the issues at stake in the litigation.

"...If a certification is made in violation of the rule, the court, upon motion or upon its own initiative, shall impose upon the

> person who made the certification... an appropriate sanction, which may include an order to pay the amount of the reasonable expenses incurred because of the violation, including a reasonable attorney's fee."

STATEMENT OF THE CASE

On July 14, 1982, Plaintiffs Water Technologies Corporation and Water Pollution Control Systems, Inc. (collectively referred to as "WTC/WPCS") filed a Complaint against Calco, Ltd. ("Calco") and William J. Gartner ("Gartner") invoking federal jurisdiction of the United States District Court under 28 U.S.C. § 1338. Calco and Gartner were accused of direct infringement of four United States Patents and Gartner was also charged with inducing Calco's

infringement under 35 U.S.C. § 271(b). Each of the patents, U.S. Patent Nos. 3,817,860; 3,923,665; 4,187,183 and 4,190,529 are directed to resins or methods of using or manufacturing resins useful for water purification. WTC/WPCS also accused Calco and Gartner of unfair competition for misappropriation of confidential information, and use of that information in connection with patent infringement. To understand the genesis of the WTC/WPCS patent invalidity cross-claim at issue in this petition, the relationship of all respondents and a previously dismissed Plaintiff must be briefly explained.

Respondent, Kansas City University Research Foundation ("KSURF") filed and obtained two patents relating to

triiodide demand bactericidal resin and methods of making or using such resin. These patents, U.S. Patent Nos, 3,817,860 and 3,923,665 were licensed in 1973 to Aqua-Chem, Inc. ("Aqua-Chem"), who was at first an involuntary Plaintiff and later became a voluntary Plaintiff in this litigation. Aqua-Chem had the right to sublicense the patents, and entered into a royalty-bearing license agreement with WPCS for products containing 100 cubic centimeters or less of the patented resins. In the mid-1970's, an Aqua-Chem chemist, Hatch, developed an additional bactericidal demand resin and received two patents, namely, U.S. Patent Nos. 4,187,183 and 4,190,529. These Hatch patents were also included in the WPCS license.

WPCS was unsuccessful in making a product under the licensed products and was purchased by WTC. While WTC/WPCS paid royalties to Aqua-Chem, they consistently complained that they were unable to make one of the patent resins, and that the technological help necessary to make that resin under the agreement had not been furnished by Aqua-Chem.

When WTC/WPCS learned of Calco's manufacture of a resin-containing product known an the POCKET PURIFIER® Straw, they urged Aqua-Chem to sue Calco for patent infringement under the licensed patents. Aqua-Chem refused, stating both that it was not obliged to do so under their license agreement, and that it was unable to find any infringement. WTC/WPCS responded by

withholding most of the minimum royalty then due Aqua-Chem under the license agreement. In addition, on July 14, 1982, WTC/WPCS filed suit against Calco, Calco's President Kalnitz, and Gartner, joining Aqua-Chem as an involuntary Plaintiff.

In late July, 1982, Aqua-Chem sent WTC/WPCS a 30-day notice of license termination for non-payment of royalties. WTC/WPCS responded by filing a Second Amended Complaint asserting inter alia a declaratory judgment cross-claim against Aqua-Chem alleging invalidity of all four licensed patents.

WTC/WPCS also sought a preliminary injunction to prevent Aqua-Chem from cancelling the license. The preliminary injunction was denied and

the WTC/WPCS appeal to the Seventh Circuit was eventually abandoned. WTC/WPCS not only pled that the licensed patents were invalid, but also answered an interrogatory asserting the invalidity of the two patents which originated from Aqua-Chem. At Calco's and Gartner's patent infringement trial, this interrogatory answer was received in evidence without objection and reads as follows:

> INTERROGATORY NO. 2
>
> State all facts and identify all documents upon which you relied or which in any manner refer or relate to the allegations in Count VII of the Third Amended Complaint:
>
> (a) that Aqua-Chem's patents Nos. 4,187,183 and 4,190,529 are invalid; and
>
> (b) that Aqua-Chem's patents noted in paragraph (a) above are rendered obvious by the prior art.

Long after the District Court had denied the WTC/WPCS motion to enjoin Aqua-Chem from cancelling the license, and after they filed a Third Amended Complaint which continued to allege that the patents were invalid, WPCS finally answered the interrogatory as follows:

ANSWER

a) U.S. Patent Numbers
3,923,665
3,817,860

A Broad-Spectrum Water Disinfectant that Releases Germicide on Demand, by Louis R. Fina and Jack L. Lambert, Reprinted from Proceedings Second World Congress, International Water Resources Association, New Delhi, India, December 1975, Volume II, Pages 53-59.

The references cited in the specifications and file wrappers of the U.S. Patent Numbers:
4,190,529
4,187,183
3,923,665
3,817,860

> Discovery is being conducted in this area, and may lead to added prior art and facts.

The answer was signed and sworn to under oath by the same counsel for WTC, WPCS and KSURF.

Subsequently, KSURF, as an indispensable party and equitable owner of its patents, was brought in as an involuntary Plaintiff. KSURF at first vigorously protested that it had no interest in the proceeding. Before the Calco and Gartner trial and after cancellation of the Aqua-Chem/WPCS license, Aqua-Chem became a voluntary Plaintiff and filed suit against Calco on only the two licensed patents originating from Aqua-Chem. Aqua-Chem also asserted a claim for unfair competition and breach of confidence

against Gartner, contending that Gartner stole Aqua-Chem trade secrets.

In 1985 and approximately three weeks before Calco's and Gartner's trial, Aqua-Chem and WTC/WPCS settled their differences. Aqua-Chem retroactively transferred to KSURF all rights to the Aqua-Chem patents and also relinquished to KSURF all of Aqua-Chem's license rights under the KSURF patents. At this point, all four patents and the right to sue for post-September, 1982, infringement of those patents were held by KSURF. KSURF then became a voluntary Plaintiff, and KSURF engaged WPCS' trial counsel to handle the trial against Calco and Gartner. WTC/WPCS' patent invalidity cross-claim and supporting interrogatory answers

were received in evidence during the trial without objection.

Trial was conducted in mid-June and early-July, 1985. On the first day of trial, Aqua-Chem and its remaining claims against Calco and Gartner were dismissed with prejudice. At the close of Plaintiffs' case, the court dismissed the cause of action against Kalnitz for lack of evidence. On October 22, 1986, the District Court filed a 38-page Judgment with Findings of Fact and Conclusions of Law, and two-page Judgment Order. The court found all four licensed patents valid, and infringed. The Order enjoined Calco and Gartner from making, using, or selling the patented resin, and awarded damages and attorneys' fees.

WTC/WPCS contended that its patent invalidity cross-claim and interrogatory answers were a permissible alternative pleading under Fed.R.Civ.P. 8(e)(2). Petitioners opposed this on the ground that such pleadings and interrogatory answers were admissions against interests on the patent invalidity issue and further were used as an "economic club" to leverage settlement with Aqua-Chem and were therefore impermissible under Fed.R.Civ.P. 11 which is incorporated by reference within Fed.R.Civ.P. 8(e)(2). The District Court Opinion addressed neither view and held, "it is the view of the Court that Defendants were not party in any way to the original dispute between WPCS and Aqua-Chem and that, therefore, Defendants in

this case cannot take advantage of pleadings or interrogatories between those parties."

Petitioners appealed. On the issue of WTC/WPCS' patent invalidity cross-claim and supporting sworn interrogatory answer, the Court of Appeals held that WTC/WPCS was entitled to plead inconsistent and alternative defenses. The Court of Appeals further held that WTC/WPCS was not precluded under the doctrine of judicial estoppel to take a patent validity and infringement position inconsistent with its earlier patent invalidity cross-claim and interrogatory answer because there had been no judicial acceptance of the asserted inconsistent position. The Court of Appeals explained that because WTC/WPCS' patent invalidity

cross-claim was settled and not decided by the Court, there was no judicial acceptance of the inconsistent pleading and therefore no risk of inconsistent results, no effect on the integrity of the judicial process, and not perception that the Court has been misled.

Petitioners filed a petition for rehearing raising the issue that if such patent invalidity cross-claim were alternative pleadings as held by the Court of Appeals, whether such alternative pleading violated the limitations imposed on alternative pleadings by virtue of the incorporation of Fed.R.Civ.P. 11 within Fed.R.Civ.P. 8(e)(2). The petition explained that if such patent invalidity cross-claim asserted by a

patent licensee was alternative pleading, then it violated the Rule 11 limitation within Rule 8(e)(2) since such pleading was made in bad faith and for the purpose of levering settlement with its patent licensor Aqua-Chem. The rehearing petition was denied on July 15, 1988 and mandate was entered July 28, 1988. This case is presently on remand before the U.S. District Court for the Northern District of Illinois, Eastern Division for redetermination of damages and attorneys' fees.

REASONS FOR GRANTING THE WRIT

I. Respondents' Patent Invalidity Cross-Claim And Interrogatory Answer Are Irreconcilable With Lear, Inc. v. Adkins And Impermissible Under The Rule 11 Limitations In Rules 8(e)(2) And 26(g)

Alternative and inconsistent pleadings made under Fed.R.Civ.P. 8(e)(2) are subject to the limitations imposed by Fed.R.Civ.P. 11, as amended October 1, 1983. While a party may plead alternative or inconsistent claims or theories, the Rule 11 caveat and Rule 8(e)(2) require that prior to making the pleading, the party must have conducted a reasonable legal and factual inquiry and that, inter alia, the pleading must not be interposed for any "improper purpose". The language of Rule 11 is also specifically

applicable to discovery requests and responses by virtue of Rule 26(g).

Petitioners urged the lower and reviewing courts that Respondents' declaratory judgment cross-claim against their licensor for patent invalidity and the sworn interrogatory answer signed by their counsel bound or estopped them from contending otherwise at trial. Petitioners further urged that it could not be excused as permissible alternative pleading in view of the Rule 11 caveats and Rules 8(e)(2) and 26(g). The Court of Appeals dismissed this as alternative pleading while ignoring the sworn and unamended interrogatory answer that was received in evidence without objection. Even if Respondents had conducted a prefiling inquiry for both the cross-

claim and interrogatory answer, it was no secret that Respondents interposed this pleading and interrogatory answer for the improper procedural purpose of fending off their licensor's claims for termination of the patent license and for unpaid past licensing royalties. Once having achieved this purpose by settling with their licensor, resulting in a forgiveness of the past royalty claim, Respondents ignored the existence of their invalidity pleading and sworn interrogatory answer in their suit against Petitioners. The District Court and, now, the Opinion of the Court of Appeals for the Federal Circuit found such pleading and sworn answer to neither bind nor estop Respondents from taking the exact opposite position against Petitioners

on the day of trial. The sworn and unamended interrogatory answer, signed by trial counsel, which took exactly the opposite position was received in evidence without objection. No tribunal has addressed how this result can be reconciled in view of the Rule 11 limitations incorporated in Rules 8(e)(2) and 26(g). In fact, there is a dearth of decisions in this area.

Though the Opinion of both the lower and reviewing courts implies that a party may plead both the validity and invalidity of patents in suit within the same proceeding, apparently neither of the lower courts considered how such a pleading is sustainable under the Rule 11 limitations incorporated within Rule 8(e)(2). Nor did either lower

court address the question of whether the unamended interrogatory answer binds Respondents since it takes the exact opposite position espoused at trial. The Rule 8(e)(2) case law cited in the Opinion was decided prior to the 1983 amendments to Rule 11 and Rule 26(g) and is inapplicable. The Court of Appeals Opinion permits a patentee or licensee to plead the validity and invalidity of a patent within the same or related proceedings and that such allegations, which dispute the very existence of the patent, are within the bounds of permissible alternative pleading. To permit a patent licensee to plead patent validity and invalidity within the same action clearly exceeds the policy considerations set forth in

Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

In Lear, the Court held that there were important economic and public policy considerations which weighed in favor of permitting a patent licensee to challenge the invalidity of a licensed patent notwithstanding contractual doctrine to the contrary.

> "...Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued." 395 U.S. at 670-71.

By permitting a patent licensee to plead the validity and invalidity of

licensed patents within the same action serves none of these policy considerations. Rather, if the Court of Appeals' view is accepted, patent licensees will, as in the instant case, use Lear and assert invalidity of the licensed patents as a shield against a licensor's breach of license claims while at the same time recover for infringement of the licensed patents against accused infringers. The public interest is not served by a patent licensee pleading and swearing to the invalidity of licensed patents only to have that same licensee recover for infringement of the licensed patents.

By overlooking the Rule 11 implications of such procedural jousting and whether it is within the purview of Lear, Inc. v. Adkins, the

reviewing court's Opinion has invited pleadings of every and any kind, notwithstanding their legal or factual sustainability or their propriety of purpose. Hence, review is respectfully requested to examine the issue of whether Respondents were entitled to plead inconsistently the validity and invalidity of the patents in suit, when viewed from a Rule 11 perspective, and whether such pleading and unamended interrogatory answer were irreconcilable with Rules 11 and 26(g).

II. Because Respondents' Cross-Claim And Interrogatory Answer Were Imposed For An Improper Purpose, The Patents In Suit Should Be Unenforceable By Respondents Against Petitioners

The Court of Appeals held that Respondents could not be judicially

estopped to assert the validity of the patents in suit against Petitioners because there had been no judicial acceptance of their prior inconsistent patent invalidity position taken against their licensor. While judicial estoppel (an issue not briefed or argued by the parties) was held not to arise because Respondents' invalidity cross-claim was settled and not judicially decided, the Court of Appeals overlooked whether Respondents' improper use of the invalidity cross-claim and sworn unamended interrogatory answer to leverage settlement with their licensor (from which Respondents derived significant procedural and economic benefits) was permissible under Rules 11 and 26(g). Petitioners contend that an appropriate sanction

for such flagrant violation of Rules 11 and 26(g) should be unenforceability of the patents by Respondents against Petitioners, who relied on the pleadings and interrogatory answer.

Respondents received significant economic and procedural benefits from asserting their patent invalidity cross-claim which resulted in settlement with their licensor. These benefits were:

(1) Respondents' obligations for past royalties owed to their licensor were forgiven.

(2) The suit between Respondents and their licensor was settled with prejudice.

(3) Respondents' licensor transferred the patents it owned to KSURF, who in turn

licensed Respondents as part of the terms of KSURF's three-way settlement with Respondents and their licensor.

(4) Respondents avoided having to prove at trial their inconsistent claim of invalidity of the four patents in suit and were unaffected by their sworn interrogatory answer setting forth the specific reasons for their pleading invalidity.

On the other hand, Petitioners relied on Respondents' invalidity cross-claim and interrogatory answer up to the day of trial. On the opening day of trial, the Court, after

dismissing Respondents' patent invalidity cross-claim against their licensor, also dismissed the licensor from the suit with prejudice over the vigorous objections of Petitioners. The District Court expressly promised that it would return Respondents' licensor to the litigation if Petitioners could show prejudice by its absence. Such prejudice occurred. First, the District Court held that Petitioners could not avail themselves of Respondents' patent invalidity pleading or sworn interrogatory answer (offered and received in evidence without objection) since the District Court believed they were not an essential or relevant part of the case. Secondly, had Respondents' licensor remained in the case, it would have

been forced to testify that it, as the prior owner of the patents, could not find any infringement of the accused resin, which admission would have bound its assignee and its licensee, i.e., Respondents in this case.

Moreover, Respondents' reason for pleading the invalidity of the patents in suit as against their licensor was clear; Respondents moved the District Court to enjoin their licensor from terminating the license agreement for Respondents' own non-payment of royalties. This motive was evidenced by the language at page 5 of Respondents' supporting memorandum filed with the District Court on August 31, 1982 in which Respondents cited Lee v. Lee Custom Engineering, Inc., 476 F.Supp. 361 (E.D.Wis. 1979),

for the proposition that a licensor is prohibited from terminating a license agreement or requiring payment of royalties when the licensee had challenged the validity of the patent. In fact, in their answering appeal brief, Respondents plainly admitted in their Appellate answering brief that their patent invalidity cross-claim was necessary in order to protect their "several interests". Hence, Respondents' invalidity cross-claim was strictly being used for the improper procedural and economic purpose of leveraging settlement with Respondents' licensor. To complete the charade, Respondents' counsel swore in the interrogatory answer as to the reasons for invalidity.

Yet, despite the significant economic and procedural advantages derived by Respondents from their invalidity cross-claim and interrogatory answer, Respondents have suffered no procedural or substantive consequences of such improper use of their pleading. Though Respondents escaped the effects of judicial estoppel, by remaining silent on the pre-trial sanctionability of improperly used alternative pleadings, the review court's Opinion sends a clear message that a party can plead virtually anything and can respond to discovery in almost any manner without any procedural or substantive consequences so long as the matter does not go to trial. However, Petitioners believe that, to this extent, the Court of

Appeals misapprehends the purpose of Rule 11 as it is incorporated within Rules 8(e)(2) and 26.

Rule 11 authorizes a court to impose "appropriate sanctions" for violations of the Rule. The striking of the invalidity cross-claim and interrogatory answer or monetary sanctions against Respondents for filing of these papers does nothing to alleviate the material prejudice suffered by Petitioners. In fact, such a "sanction" would allow Respondents to retain the economic and procedural benefits they received from the improper and bad faith assertion of the patent invalidity cross-claim and interrogatory answer.

The only "appropriate sanction" for Respondents' conduct would be to

preclude Respondents from enforcing the patents in suit against Petitioners. While admittedly an extreme remedy, preclusion of a plaintiff's claim is not unheard of to remedy procedural abuses. See, e.g., Loctite v. Fel-Pro, 677 F.2d 577, 213 U.S.P.Q. 905 (7th Cir. 1981) (plaintiff's discovery abuses resulted in dismissal of case). To do otherwise, would allow Respondents to retain the benefits of their procedural shenanigans for which no tribunal has held them procedurally or substantively accountable.

CONCLUSION

For the foregoing reasons, Petitioners respectfully request review to determine whether the policy considerations in Lear, Inc. v. Adkins permits a patent licensee to plead the invalidity of the licensed patents and attest to such invalidity in the same action that the licensee asserts and recovers for infringement of the patents; whether the patent invalidity cross-claim and supporting interrogatory answer of Respondents is sanctionable under Rules 11 and 26(g); and, whether an appropriate sanction should be the rendering of the patents unenforceable by Respondents as against

Petitioners.

Respectfully submitted,

CALCO, LTD. and
WILLIAM J. GARTNER

By Robert E. Wagner

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October 13, 1988

APPENDIX

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

87-1204

WATER TECHNOLOGIES CORPORATION,
WATER POLLUTION CONTROL SYSTEMS,
INC., and KANSAS STATE UNIVERSITY
RESEARCH FOUNDATION,
Plaintiffs-Appellees,

v.

CALCO, LTD.,
Defendant-Appellant,

and

WILLIAM J. GARTNER,
Defendant.

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87-1205

WATER TECHNOLOGIES CORPORATION,
WATER POLLUTION CONTROL SYSTEMS, INC.,
and KANSAS STATE UNIVERSITY
RESEARCH FOUNDATION,
Plaintiffs-Appellees,

v.

WILLIAM J. GARTNER,
Defendant-Appellant,

and

CALCO, LTD.,
Defendant.

Michael R. Dinnin, Harness, Dickey & Pierce, of Birmingham, Michigan, argued for plaintiffs-appellees. With him on the brief was Robert A. Dunn.

Robert E. Wagner, Wallenstein, Wagner, Hattis, Strampel & Aubel, Ltd., of Chicago, Illinois, argued for defendants-appellants. With him on the brief were Daniel N. Christus and Alan L. Barry.

Appealed from: U.S. District Court for the Northern District of Illinois Eastern Division

Judge McGarr

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

87-1204

WATER TECHNOLOGIES CORPORATION, WATER POLLUTION CONTROL SYSTEMS, INC., and KANSAS STATE UNIVERSITY RESEARCH FOUNDATION,

Plaintiffs-Appellees,

v.

CALCO, LTD.,

Defendant-Appellant,

and

WILLIAM J. GARTNER,

Defendant.

- -

87-1205

WATER TECHNOLOGIES CORPORATION, WATER POLLUTION CONTROL SYSTE#S, INC., and KANSAS STATE UNIVERSITY RESEARCH FOUNDATION,

Plaintiffs-Appellees,

v.

WILLIAM J. GARTNER,
Defendant-Appellant,

and

CALCO, LTD.,
Defendant.

DECIDED: June 16, 1988

Before NIES, Circuit Judge, SKELTON, Senior Circuit Judge, and ARCHER, Circuit Judge.

NIES, Circuit Judge.

Calco, Ltd. and William J. Gartner appeal from the judgment of the United States District Court for the Northern District of Illinois, No. 82 C 4330 (Oct. 22, 1986),[1] in favor

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[1]Appellants bring separate appeals from the same judgment. Each of the issues presented for review in the Appeal Brief of co-Appellant Calco is common to both appeals, and co-Appellant Gartner incorporated the arguments of Calco's brief by reference in his own brief. Gartner raised one additional issue: whether the district court committed reversible error by not holding Gartner personally liable for damages. Although not consolidated on appeal, the two appeals were argued the same day and, for the convenience of

of Water Technologies Corporation, its wholly owned subsidiary, Water Pollution Control Systems, Inc. (collectively WTC/WPCS), and Kansas State University Research Foundation (KSURF), holding them liable for willful infringement of certain claims of U.S. Patents Nos. 3,817,860; 3,923,665; 4,187,183; and 4,190,529 and for unfair competition. We reverse the district court's judgment to the extent it held Calco and Gartner liable for unfair competition. We vacate the damage award based on lost profits and remand for redetermination of damages. In all other respects, the judgment is affirmed. Accordingly, we affirm-in-part, reverse-in-part, and remand.

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the court, we issue a single opinion.

PUBLISHER'S NOTE

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I

BACKGROUND

Thls case lnvolves improved bactericidal resins used as disinfectants for purifying water. The plaintiff, WPC/WPCS, developed a drlnking cup and other products whlch use such resins and are useful to campers, backpackers, and travelers. Calco, a competitor in the field, manufactures and sells water purifying drinking straws which also contain bactericidal resins. Gartner is the president of a chemical laboratory which does testing and is the inventor/licensor of a patent for the water purifying straw made by Calco. Gartner also works as a consultant.

For twenty to thirty years before the developments claimed in the

earliest of the patents at lssue, scientists had used materials such as halogens (iodine, bromine, or chlorine) to disinfect water. These prior techniques inserted halogen tablets directly into the water. Unfortunately, such techniques left large, residual amounts of the disinfectant in the water, which detracted from the water's taste and, in large applications, such as in swimming pools, risked harm to the eyes and mucous membranes.

Professors Jack L. Lambert and Louis R. Fina worked to solve that problem at Kansas State University (KSU) during the late 1960's. The professors developed a process able to purify water, renderlng lt bacterially sterile, by passing the water through a strongly basic anion exchange resin

containing triiodide.[2] The triiodide groups react on demand with bacteria in water suspensions to kill the bacteria. For that reason, the triiodide resins are also called "demand'' bactericidc resins: the disinfectant resin generally releases iodine only upon contact with bacteria or germs to be killed. Moreover, the process has the advantage of disinfecting without forming a detectable concentration of iodine in

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[2]The process reacts a strong base anion exchange resin, such as the quaternary ammonium resin, with triiodie ions to form a stable compound of extremely low dissociation in water. (A "triiodide ion" is an ion formed from iodine atoms. The iodine ion, I^-, combines with molecular iodine, I_2, to form the triodide ion, I_3. If more of the elemental iodine combines with the monovalent triiodide ion, higher polyiodide ions will form, for example, the polyiodide ions 1_5 and I_7.) The insolubilized triiodide groups of the resin "interact" with bacteria in the water.

the water and the treated water is ready for immediate use.

Lambert and Fina obtained U.S. Patent No. 3,817,860 (the '860 patent), covering a method of disinfecting water using the demand bactericide resin, on June 18, 1974. On December 2, 1975, they obtained U.S. Patent No. 3,923,665 (the '665 patent) covering the demand bactericide resin itself and the process of preparing that resin. Both patents issued from continuation-in-part applications of an abandoned application, Serial No. 881,923, filed on December 3, 1969. Both patents were assigned to KSURF.

In 1973, KSURF granted an exclusive license to Aqua-Chem, Inc., under the '860 and '665 patents. Dr. Gary L. Hatch, an employee of Aqua-Chem, then developed two

improvement lnventions. The improvements covered a demand bactericide resin which still comprised primarily triiodide resin but added thirty to forty percent of the polyiodide pentaiodide, I5. This mixed-form polyhallde resin, composed of both trilodide and pentaiodide ions, elutes reduced levels of iodide ions in water of high salt concentrations (250 ppm sodium chloride or greater). Hatch obtained U.S. Patent No. 4,187,183 (the '183 patent) on February 5, 1980, covering the mixed-form polyhalide resin itself. On February 26, 1980, Hatch obtained U.S. Patent No. 4,190,529 (the '529 patent), covering a method of disinfecting water using that resin. Hatch assigned both patents to Aqua-Chem.

In September of 1977, Aqua-Chem granted an exclusive license under the then-pending Hatch applications, and an exclusive sublicense under the Lambert-Fina patents, to WTC/WPCS for purifier products containing less than 100 cubic centimeters (cc) of the resins. Operating under the licenses, WTC/WPCS developed, inter alia, its water purifying cup.

In late 1979, Gartner contacted Aqua-Chem in his capacity as consultant for Brunswick Corporation, a company not lnvolved in this litigatlon, which he indlcated was interested in taking a license from Aqua-Chem to use its resin products in new water purification devices. Through the auspices of Aqua-Chem, Gartner met with the personnel of WTC/WPCS in August of 1979. He

received literature at that meeting which described WTC/WPCS's water purifier products using the '665 trliodide resin.

In July of 1980, Gartner applied for a patent covering a straw-type water purifying device, specifying merely that a triiodide resin could be used therein. On August 28, 1980, Gartner met again with Aqua-Chem. At that time Aqua-Chem gave Gartner its preferred formula and stoichiometric ratio of ingredients on the basis that Gartner would assist Aqua-Chem in licensing products larger than 100 cc in size. This formula was disclosed in Table I of the '183 and '529 patents which had issued in February 1980, but apparently Gartner did not become aware of the patents until September 1980. Gartner gave the patented Aqua-Chem

resin formula to Calco in August or September of 1980 in connectlon with llcensing Calco to make Gartner's water purifying straw, a product containing less than 100 cc of resin.

By September 1980, Calco was also aware of the patents but, with Gartner's assistance, on November 4, 1980, manufactured a first batch of the Hatch triiodide resin which it put into straws marketed under the trademark POCKET PURIFIER owned by Gartner. Gartner tested the straws, helped Calco obtain EPA approval, and wrote the directions for use of the product by consumers. Calco sold 400-500 units of devices made with the first batch of resin. A few units were also sold or dlstributed by Gartner.

During the beglnning of 1981, Gartner developed a modified resin

formula which ultimately he patented. That formula added a small amount of potassium bromide (the amount of bromine that actually remained in the modlfied resin was only about 0.5% by welght, Slip op. at 25) to the patented Hatch resln formula. Gartner added the potassium bromide because he thought this addltion might make it "possible to skirt both the KSU and Aqua-Chem patents." Slip op. at 10. Calco started to work with the new resin on February 23, 1981, and Gartner's laboratory continued to evaluate Calco's products. When this work and evaluation were complete, Calco used the new, modified resln in the POCKET PURIFIER straws which it thereafter marketed.

WTC/WPCS discovered the POCKET PURIFIER straws on the market in the

early Fall of 1981. That discovery prompted WTC/WPCS to ask its licensor, Aqua-Chem, to challenge the accused infringing product. When Aqua-Chem declined, WTC/WPCS withheld royalties from Aqua-Chem and, as exclusive licensee under the patents, filed an action on July 13, 1982, against Calco, Gartner, and Aqua-Chem, charging, inter alia, patent infringement and unfair competition. The action also named Aqua-Chem as involuntary plaintiff.

Aqua-Chem responded by terminating the exclusive licenses to WTC/WPCS in September of 1982 and by filing cross claims against WTC/WPSC for unpaid royalties under the 1977 license agreement and against Gartner for damages for misappropriation of alleged trade secrets.

Aqua-Chem and WTC/WPCS settled their cross claims in an agreement signed in May 1985 to which KSURF was a signatory. In accordance with the agreement, Aqua-Chem assigned the '183 and '529 Hatch patents to KSURF and surrendered its license under KSURF's '860 and '665 patents. As the owner of the four patents, KSURF (appellee herein) voluntarily joined WTC/WPCS as plaintiff. In an order dated on or about June 14, 1985, the district court dismissed Aqua-Chem's cross-complaint, specifically "with prejudice."

In the restructured case, the district court held, inter alia, that Calco (and to a limited extent Gartner) had directly infringed the four patents by making, using, and selling both the first batch resin and the subsequent

modified resin, ln the POCKET PURIFIER straws; that Gartner induced Calco's infringement; that their infringement was willful; and that Calco and Gartner were liable for unfair competition. These liabillty judgments formed the basis for the court's award of damages: $420,000 for plaintiffs' lost-profits and $100,000 for loss of marketing opportunities, both amounts being doubled because of the willful nature of defendants' conduct; reasonable attorney fees based on the exceptional nature of the case under 35 U.S.C. _ 285 (1982); and prejudgment interest as authorized by 35 U.S.C. _ 284 (1982). The district court held Gartner jointly liable with Calco for all damages. Finally, the court enjoined Calco and Gartner from future infringement of the four patents.

II

ISSUES ON APPEAL

Did the trial court err in holding that:

1. Appellees are not estopped to assert the validity of the patents in suit;

2. Appellees proved that the Gartner resins and methods of manufacture and use infringe;

3. Gartner induced infringement;

4. Appellees proved unfair competition;

5. Appellees established entitlement to lost profits;

6. The amount of attorney fees was established.

III

NO ADMISSION OF INVALIDITY

In this appeal, Calco and Gartner do not challenge the validity of the four patents on the basis of 35 U.S.C. __ 102 or 103 (1982). Instead, they contend solely that WTC/WPCS and KSURF have admitted invalidity. In the early stage of proceedings, before Aqua-Chem was dismissed from the lawsuit, WTC/WPCS pleaded as a defense to Aqua-Chem's claim for royalties that the four patents were invalid. In addition, WTC/WPCS asserted the invalidity of the '183 and '539 patents in an answer to an interrogatory propounded by Aqua-Chem. Calco and Gartner assert that they are entitled to the benefit of the pleading and answer as an "admission''

that the patents are invalid. Thus, appellants theorize, WTC/WPCS is estopped to assert the validity of the patents against it. The district court gave short shrift to that argument, and so do we.[3]

A pleading may constitute an admission. Enquip, Inc. v. Smith-McDonald Corp., 655 F.2d 115, 118 (7th Cir. 1981); McCormick on Evidence _ 265, at 780 (E. Cleary ed. 1984). Even as between WTC/WPCS and Aqua-Chem, however, WTC/WPCS was entitled to plead inconsistently in alternative defenses. Fed. R. Civ. P. 8(e)(2) ("A

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[3]In addressing this procedural challenge to the validity of the four patents, we apply the law of the regional circuit -- the Seventh Circuit -- where the appeal would lie but for the patent counts. See, e.g., Digital Equip. Corp. v. Emulex Corp., 805 F.2d 380, 383 n.3, 231 USPQ 779, 781 n.3 (Fed. Cir. 1986).

party may also state as many separate claims or defenses as he has regardless of consistency"); Douglas .Equip., Inc. v. Mack Trucks, Inc., 471 F.2d 222, 224 (7th Cir. 1972) ("The evidentiary law of Illinois also recognizes the foregoing [inconsistent pleadings are not admissions] approach" . . . and the pleader '''is not ''admitting" anything other than his uncertainty.''').

More significantly, whether judicial estoppel should be invoked to preclude WTC/WPCS from taking a position inconsistent with its earlier pleading or interrogatory answer depends upon WTC/WPCS having received a benefit from the previously taken position in the form of judicial

success.[4] See Jackson Jordan, Inc. v. Plasser Am. Corp., 747 F.2d 1567, 1579, 224 USPQ 1, 10 (Fed. Cir. 1984) (''In all precedent cited to us and which we have researched independently, the party against whom estoppel is invoked received some benefit from the previously taken position, i.e., he 'won' because of it"); Edwards v. Aetna Life Ins. Co.,

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[4]Although the doctrine of judicial estoppel may not be "followed by anything approaching a majority of jurisdictions, nor is there a discernable modern trend in that direction," Konstantinidis v. Chen, 626 F.2d 933, 938 (D.D.C. 1980), the Seventh Circuit has considered and applied the doctrine. Se#, Dole, 813 F.2d 798, 810 (7th Cir. 1987); Secretary of Labor v. F#tzsimmons, 805 F.2d 682, 697 n.18 (7th Cir. 1986); Himmel v. Continental Illinois Nat'l Bank & Trust Co., 596 F.2d 205 210 (7th Cir. 1979); In re Yarn Processing Patent Validity Liti#., 498 F.2d 271, 279, 183 USPQ 65, 70 (7th Cir.), cert. denied sub nom. Sauquoit Fibers Co. v. Leesona Corp., 419 U.S. 1057 (1974).

690 F.2d 595, 599 (6th Cir. 1982) ("If the initial proceeding results in settlement, the position cannot be viewed as having been successfully asserted" and estoppel is inapplicable); Konstantinidis v. Chen, 626 F.2d 933, 939 (D.C. Cir. 1980) ("A settlement neither requires nor implies any judicial endorsement of either party's claims or theories, and thus a settlement does not provide the prior success necessary for judicial estoppel."). Because there has been no judicial acceptance of the asserted inconsistent position (WTC/WPCS stated its initial position in prior proceedings which were settled, not decided), there is no risk of inconsistent results, no effect on the integrity of the judicial process, and no perception that the court has been

misled. Accordingly, we agree with the district court that a holding of judicial estoppel is unwarranted.

IV

DIRECT INFRINGEMENT

Calco does not challenge that it is liable for infringement with respect to the manufacture and use of the batch of resin manufactured on November 4, 1980 and the sale of products containing that resin.[5] With respect to the Gartner resin, Calco makes two arguments against the court's finding

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[5]Gartner adopts Calco's arguments. See supra note 1. For convenience, we refer only to Calco in this portion of the opinion.

of infringement:[6] first, that the claims of the Lambert-Fina '665 and '860 patents exclude the Gartner resins because the accused resins contain pentaiodide and, second, that, in any event, plaintiffs did not prove the exact composition of the accused resins and thus did not establish infringement under any of the patents.

A. Accused Resin's Pentaiodide Content

Calco argues that the Gartner resins contain a higher polyiodide, pentaiodide, which precludes a finding that they infringe properly interpreted claims of the Lambert-Fina ('860 and '665) patents.

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[6]The district court found literal infringement and infringement under the doctrine of equivalents. In view of our agreement with its findings of literal infringement, we need not reach that latter analysis.

Calco does not assert that the claims at issue do not, given their ordinary meaning, read on the Gartner resin which contains both triiodide and pentaiodide. Although the claims specify only triiodide, they are written using the open-ended phrase "comprising" or in the '860 patent the more limited phrase "consisting essentially of." The latter does not, however, exclude the addition of another ingredient which does not materially affect the characteristics of the invention. e.g., Reese v. ###### 661 F.2d 1222, 1229, 211 USPQ 936, 943 (CCPA 1981); In re Garnero, 412 F.2d 276, 279, 162 USPQ 221, 223 (CCPA 1969). Calco asserts that the claims here should, nevertheless, be limited to triiodide only in all claims and exclude all forms of polyiodides

above triiodide. Calco bases this argument on the following evidence: 1) statements made during prosecution of the Lambert-Fina patents; 2) statements made by Aqua-Chem during prosecution of the two Hatch patents; and 3) correspondence between KSURF and Aqua-Chem.

1. The Lambert-Fina Prosecution History

After the examiner initially rejected the parent application (Serial No. 881,923) which later issued as the two Lambert-Fina patents, the applicants deleted general references to polyhalide ions and stated that "the only polyiodide or other polyhalide usable in the present invention is the triiodide." Calco asserts that such amendments strictly limit the ultimately issued patents to

triiodide-containing resins. In construing claims, the patent specification and the prosecution history are both useful tools. SRI Int'l v. Matsushita Elec. Corp., 775 F.2d 1107, 1118, 227 USPQ 577, 583 (Fed. Cir. 1985). The parent application stated that "[h]igher polyiodide ions can be used, but no particular advantage has been found." Viewing the later amendments in light of this statement, the limiting effect of the prosecution history amendments is small. Hughes Aircraft Co. v. United States 717 F.2d 1351, 1363, 219 USPQ 473, 481 (Fed. Cir. 1983) ("Depending on the nature and purpose of an amendment, it may have a limiting effect within a spectrum ranging from great to small to zero."). The '860 patent specification

still states that ''some of the higher polyiodide ions may be formed and special steps may be necessary to remove the excess iodine from the resin." Thus, the specification and prosecution history do not require the strict interpretation of the claims urged by Calco.

2. The Hatch Patents' Prosecution History

Several years after the Lambert-Fina patents issued, a different attorney, representing Aqua-Chem as assignee, prosecuted the two Hatch patents. During that prosecution, in order to obtaln allowance, the attorney argued that the Lambert-Fina patents (prior art to the Hatch applications) were limited to triiodide-containing resins. We

must construe claims "in the light of the claim language, the other claims, the prior art, the. prosecution history, and the specification." SRI Int'l 775 F.2d at 1118, 227 USPQ at 583 (emphasis added). We see no reason why arguments made by a different attorney prosecuting later patent applications for a different inventor should be used to limit an earlier-issued patent; Calco has offered none. Consequently, the second ground for Calco's argument to limit the scope of the Lambert-Fina claims fails.

3. The Honstead Letter

Finally, a letter from William Honstead, Executlve Vice President of KSURF, a#vised Aqua-Chem that KSURF's patent attorney believed resins

containing higher polyiodides, such as pentaiodide, were outside the scope of the license agreement covering the Lambert-Fina patents. That letter indicates, Calco states, that the origlnal owner of the Lambert-Flna patents (KSURF) acknowledged those patents as llmited to triiodide-containing resins. Calco urges this court to estop or preclude KSURF from contendlng otherwise. There is no assertion that Calco relied on this letter to justify its activities, and we refuse to accord precluslon effect to a hearsay statement asserted during negotiations over a dispute concerning the scope of a license with a third party.

The scope of a claim is a matter of law. McGill, Inc. v. John Zlnk ###' 736 F.2d 666, 671, 221 USPQ 944,

948 (Fed. Cir.), cert. denied, 469 U.S. 1037 (1984). We agree with the district court's lnterpretation of the Lambert-Flna claims: they are not limited to a triiodide-containing resin alone.

B. Quantltative Testing was not Necessary

Calco argues that plaintiffs failed to prove that the Gartner resin infringed any of t#e four patents because of the absence of quantitative testing, e.g., by spectroscopy, to determine the exact composition of that product.

The court relled on the testimony of WTC/WPCS's experts, who testified that the accused resin and method of use and manufacture did infringe the subject patent claims. Calco points

to a purported conflict in that testimony with respect to the quantity of pentaiodide in the Gartner resin and characterizes plaintiffs' proof as in "hopeless conflict." It must be noted that Calco offered little, if any, evidence to counter the plaintiffs' experts. But, in any event, we do not discern the "hopeless conflict" in the entirety of the witnesses' testimony. One referred to the quantity of pentaiodide as "small"; another as "30%." No effort was made to quantify what the witness meant by "small." This is too slender a reed to overturn the trial court's finding of infringement as clearly erroneous.

This court has often stated that the question of infringement of properly interpreted claims is one of

fact. See, e.g., SRI Int'l, 775 F.2d at 1125, 227 USPQ at 589. We review such questions under the clearly erroneous standard. Fed. R. Civ. P. 52(a); Thomas & Betts Corp. v. Litton Sys., Inc., 720 F.2d 1572, 1579, 220 USPQ 1, 6 (Fed. Cir. 1983). Having addressed each of Calco's arguments on appeal, we are not left with the firm con the dlstrict court's finding of literal infringement

Calco does not raise the issue of the wlllful nature of the infringement on appeal, and, accordingly, we need not address that issue.

Gartner asserts that except for his de minimis distrlbuound for holding him liable for direct infringement is that his company tested the infringing products for

Calco and that he is not individually liable for those acts. We need not address the issue of his direct infringement because, as discussed infra, we affirm the finding that he induced Calco's direct infringement and direct infringement by the public.[7] See 5 D. Chisum, Patents § 20.03[7][b][iv], ar 20-247 (1984) (appropriate relief against one inducing infringement may be same as that against direct infringer); cf. Aro Mfg. Co. v. Convertible Top Replacement Co., 377 U.S. 476, 500 (1964) (contributory infringer a "species of joint-tortfeasor, who is held liable because he has contributed

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[7]Direct infringement is a prerequisite to finding induced infringement. See, e.g., Met-Coil Sys. Corp. v. Korners Unlimited, Inc., 803 F.2d 684, 687, 231 USPQ 474, 477 (Fed Cir. 1986).

with another to the causing of a single harm to the plaintiff").

V

INDUCEMENT OF INFRINGEMENT

The patent statute provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. _ 271(b) (1982). Thus, a person infringes by actively and knowingly aiding and abetting another's direct infringement. Although section 271(b) does not use the word "knowing,'' the case law and legislative history uniformly assert such a requirement. 4 D. Chisum, supra, __ 17.04[2], [3] (and cases cited therein).

Gartner argues that no proof of a specific, knowing intent to induce

infringement exists. While proof of intent is necessary, direct evidence is not required; rather, circumstantial evidence may suffice. Moleculon Research Corp. v. CBS, Inc., 793 F.2d 1261, 1272, 229 USPQ 805, 813 (Fed. Cir. 1986), cert. denied, 107 S. Ct. 875 (1987).

Gartner maintains that he was unaware of Calco's sales of straws using the original batch of resin and that this lack of knowledge precludes a finding of intent to induce infringement in those sales. With respect to straws made using his modified resin, Gartner asserts that a finding of intent is negated by his subjective belief that he had a noninfringing resin. As evidence of this belief he points to a letter he wrote to Brunswick, see Letter from

William J. Gartner to Fred Konigsdorffer of Brunswick Corp. (Oct. 16, 1980) (indicating that by adding bromine he might "skirt" the patents), and to his filing of a patent application for an improved resin modified with bromine.

In finding inducement the court relied, inter alia on Gartner's having given all of the resin formulas to Calco, helped Calco make the infringing resins, and prepared consumer use instructions. We also note that Gartner exerted control over Calco's manufacture of the infringing resins, as the owner of the trademark POCKET PURIFIER used by Calco on its product and through license agreements. See Amendment to Agreement between William J. Gartner and Calco Ltd. of Sept. 24, 1980, at 2 (Jan. 26, 1983)

("GARTNER grants to CALCO an exclusive license to manufacture and sell the purifying straw, the construction of which shall have been approved by Gartner"). Such control is also evidence that Gartner induced infringement. Cf. 4 D. Chisum, supra, 17.04[4][d], at 17-52 (design of infringing product may constitute active inducement).

Contrary to Gartner's assertions, his letter to Brunswick and his application are not such clear evidence of lack of intent that the district court could not make a contrary finding on the basis of other circumstantial evidence. See e.g., Allen Organ Co. v. Kimball Int'l, Inc., 839 F.2d 1556, 1567, 5 USPQ2d 1769, 1778 (Fed. Cir. 1988) ("Intent is a factual determination particularly within the

province of the trier of fact."). The court found that Gartner had no way of knowing (e.g., by an opinion of counsel) whether his "improvement" avoided infringement. Slip op. at 10. Further, it is elementary patent law that a patent may issue on an improvement which infringes another's patent. See, e.g., Atlas Powder Co. v. E.I. DuPont de Nemours, 750 F.2d 1569, 1580-81, 224 USPQ 409, 417 (Fed. Cir. 1984).

The requisite intent to induce infringement may be inferred from all of the circumstances. Gartner's activities provide sufficient circumstantial evidence for this court to affirm the dlstrict court's finding that he intentionally induced Calco's and the public's direct infringement. Under the facts here, althou#h

Gartner's liability as a direct infringer may be de minimis, we see no reason to hold him liable for less than all damages attributable to Calco's infringing sales on the basis of his inducement of direct infringement.

VI

UNFAIR COMPETITION

Under 28 U.S.C. _ 1338(b) (1982), a state or federal claim of unfair competition may be appended to a related claim of patent infringement. Specifically, section 1338(b) provides:

> (b) The district courts shall have original jurisdiction of any civil action asserting a claim of unfair competition when joined with a substantial and related claim under the copyright, patent, plant variety protection or trade-mark laws.

WTC/WPCS pleaded, ln a mixed "Patent Infringement and Unfair Competition" count asserted against both Calco and Aqua-Chem (then WTC/WPCS's licensor and an adverse party), that Calco was lnfringing the patents; that neither Aqua-Chem nor Calco had "taken steps to prevent or stop the infringement"; that "the appearance of Calco's product on the market" brought WTC/WPCS's negotiations directed to mass marketing of lts product to a halt; and that "major corporations now assume that blocidal products are not unlque." During the argument before this court, WTC/WPCS disclaimed any state law unfair competition claim, resting solely on "the federal law of unfair competition" which it asserts is provided in section 1338(b).

WTC/WPCS's position that section 1338(b) itself can serve as the basis for an unfair competition claim is legally untenable. Section 1338(b) is a jurisdictional statute, giving the district court jurisdiction to hear certain state or federal unfair competition claims. That statute does not create the substantive right underlying the claim.

WTC/WPCS's reliance on Schreyer v. Casco Products Corp., 190 F.2d 921, 90 USPQ 271 (2d Cir. 1951), aff'g 89 F. Supp. 177, 84 USPQ 315 (D. Conn. 1950) (denying motion to dismiss cause of actlon for unfair competition), and aff'g in part, rev'g in part 97 F. Supp. 159, 88 USPQ 515 (D. Conn. 1951) (deciding merits), cert. denied 342 U.S. 913 (1952), as authority for holdlng that section 1338(b) provides

for a federal claim against unfair competition is misplaced. Contrary to WTC/WPCS's understanding, the Schreyer case involved a "non-federal claim" of unfair competition. 89 F. Supp. at 178, 84 USPQ at 315. The particular state law was not analyzed inasmuch as the issue before the court was whether any state law claim of unfair competition could be appended to a patent infringement claim where there was no diversity in citizenship. The Second Circuit held that section 1338(b) gave jurisdiction to the district court over the non-federal unfair competition claim because the only requirement of section 1338(b) was that such claim be "related" to the patent claim. The Second Circuit did not hold that section 1338(b) creates a federal unfair competition cause of

action. It simply construed the scope of federal court jurisdiction granted therein.

In United States v. Testan. 424 U.S. 392 (1976), an argument identical to that made by WTC/WPCS here was made in connection with the Tucker Act, 28 U.S.C. _ 1491(a) (1982). The Tucker Act provides that the "Claims Court shall have jurisdiction to render judgment upon any claim against the United States . . . for . . . damages in cases not sounding in tort." In Testan, the Supreme Court held:

> The Tucker Act, of course, is itself only a jurisdictional statute; it does not create any substantive right enforceable against the United States for money damages. The Court of Claims has recognized that the Act merely confers jurisdiction upon it whenever the substantive right exists. Eastport S. S. Corp. v. United States, 178 Ct. Cl. 599, 605-607, 372 F.2d 1002, 1007-1009 (1967). We therefore must determine whether the

two other federal statutes that are invoked by the respondents confer a substantive right to recover money damages from the United States . . . .

424 U.S. at 398.

Like a litigant under the Tucker Act, a litigant pleading a claim under 28 U.S.C. _ 1338(b) must find its substantive rights elsewhere. Because there is no federal common law of unfair competition, see Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78-79 (1938) ("There is no federal general common law"), to assert a federal claim, WTC/WPCS's claim would have to rest on a federal statute whlch defines and provides relief for thls type of tort. Not only is no federal statute other than 28 U.S.C. _ 1338(b) invoked here, but also there is none which provides broadly for protection

against unfair competition.[8] WTC/WPCS's claim could rest, therefore, only on the law of unfair competition of a particular state. Cf. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974) (Ohio trade secret law not pre-empted by federal patent laws).

When we look to the district court's analysis, we cannot tell under

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[8]Federal statutes provide very narrow grounds for relief from unfair competition. See, e.g., section 43(a) of the Lanham Act, 15 U.S.C. _ 1125(a) (1982), which is effective generally in the area of protection of trade identity and false advertising. In the area of international trade, under 19 U.S.C. _ 1337(a), United States companies are protected from "unfair methods of competition" in the importation of goods. The enactment of a comprehensive federal unfair competition statute has been proposed and debated for many years. See, e.g., Vandenburgh, Federal Law of Unfair Co 1977 A.B.A.Sec.' Pat., Trademark, & Copyright 1 Proposed Federal Unfair Competition Statute, 57 Rep. 87 (1967); J. Peterson, Tne Legislat#ve Sears & Compco: A Plan for a Federal Law or Un Competition, 56 Trademark Rep. 16, (1966). Such has never been enacted, however.

what law the trial court found unfair competition because that court also mentioned only 28 U.S.C. _ 1338 and the Schreyer decision. On the merits, the trial court invoked many of the factual allegations relating to Aqua-Chem's state trade secret claim against Gartner and Calco but without finding that any trade secret was misappropriated. Specifically, the court found that Gartner misappropriated "technical information" from Aqua-Chem, namely, Aqua-Chem's preferred resin formula, in that on August 28, 1980, he obtained the formula from Aqua-Chem; that he took the formula to Calco in connection with his licensing Calco to make his purifying drinking straw; and that he assisted Calco in commercializing that product. On the

other hand, the court further found that the Aqua-Chem formula had been described in Table I of the Aqua-Chem/Hatch '183 and '529 patents. Those patents issued, as has been noted, on February 19, 1980, a date before Gartner's disclosure to Calco, so that the lnformation "misapproprlated" could not possibly be a trade secret. See, e.g., Sandlln v. Johnson, 141 F.2d 660, 661, 61 USPQ 71, 72 (8th Cir. 1944); 2 R. Callmann, The Law of Unfair Competition Trademarks & Monopolies _ 14.07, at 36 (4th ed. 1982).

We need not explore the possibility that those facts might support some kind of unfair competition theory under the law of Illinois, where the case was tried, or that of any other state. The factual

underpinnings pertain only to a possible claim by Aqua-Chem, not WTC/WPCS. Upon withdrawal from the litigation, Aqua-Chem suffered dismissal of its unfair competition claim "with prejudice." It has not been explained how Aqua-Chem's claim could have survived or how WTC/WPCS is entitled to assert it in any event. Not only does the set of facts, at best, allege a claim personal to Aqua-Chem, but also that claim became barred by the judgment. See Young Eng'rs, Inc. v. United States Int'l Trade Comm'n, 721 F.2d 1305, 1314, 219 USPQ 1142, 1150-51 (Fed. Cir. 1983); Restatement (Second) of Judgments __ 13, 19, 24 (1982).

We must agree with Calco and Gartner, therefore, that the district court erred in holding them liable to

WTC/WPCS for unfair competition. The only claim established by appellees against appellants is patent infringement under 35 U.S.C. § 271(a) and (b) (1982). Although a distinct cause of action for unfair competition may arise in a factual context which also gives rise to a patent infringement claim,[9] the facts here do not establish a claim by WTC/WPCS distinct from its patent infringement claim, which in itself is not a state unfair competition claim. Accordingly, we reverse the district court on this issue and remand with instructions to vacate the judgment to the extent that it upholds WTC/WPCS's unfair competition claim and includes

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[9]See e.g., Petersen Mfg. Co. v. Central Purchasing, Inc., 740 F.2d 1541, 222 USPQ 562 (Fed. Cir. 1984).

an award of damages thereon.

VII

DAMAGES

The district court awarded damages for patent infringement under 35 U.S.C. _ 284 (1982) on the following basis:

> Damages are governed by 35 U.S.C. 284_289. The plaintiffs seek lost profits as damages in this case, and the infringers' profits may be used to estimate plaintiffs' lost profits. Kori Corp. v. Wilco Marsh Buggies, 225 U.S.P.Q. 985, 987-89 (Fed. Cir. 1985).

Slip op. at 35. Calco and Gartner seek a redetermination of damages, contending that WTC/WPCS failed to meet its burden of proving entitlement to lost proflts. We agree that a remand is necessary.

Pursuant to section 284, WTC/WPCS

is entltled to damages "adequate to compensate" for Calco's and Gartner's lnfringement. To be entitled to damages beyond a reasonable or established royalty, a claimant must prove his actual damages, that is, his entitlement to lost profits. As Professor Chisum has stated:

> A patent owner may recover as a measure of damages the lost profits caused by the illicit competition of an infringer. The owner must establish a factual basis for causation, i.e. that but for the lnfringer's improper acts, he would have made greater sales, charged higher prices or incurred lower expenses. Causation need be proved only as a reasonable probability. An lnference that the patent owner lost sales equal in quantity to those actually made by the infringer may arise if the two were the only suppliers of a unique and demanded product and the owner had or could have acquired the capacity to meet the full demand.
> 5 D. Chisum, supra, _ 20.03[1], at 20-72.

Our precedent is in agreement that a lost profits award is

appropriate only if WTC/WPCS proved that it would have made sales of its water purifier product "but for" Calco's and Gartner's infringement, i.e., that causation existed. King Instrument Corp. v. Otari Corp., 767 F.2d 853, 864, 226 USPQ 402, 410 (Fed. Cir. 1985), cert. denied, 475 U.S. 1016 (1986); Kori Corp. v. Wilco Marsh Buggies & Draglines, Inc., 761 F.2d 649, 653, 225 USPQ 985, 987 (Fed. Cir.), cert. denied, 474 U.S. 902 (1985). While damages are to be proved, not presumed, a patent owner need not demonstrate causation with certainty. A reasonable probability that the patent owner would have made some or all of the sales is sufficient. See, e.g., King Instrument, 767 F.2d at 864, 226 USPQ at 409-10. Where a patent owner maintains that it lost

sales equal in quantity to the infringing sales, our precedent has approved generally th#e four-part test set forth in Panduit Corp. v. Stahlin Brothers Fibre Works Inc., 575 F.2d 1152, 197 USPQ 726 (6th Cir. 1978):

> To obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must orove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.

Id. at 1156, 197 USPQ at 729-30 (cited with approval in Carella v. Starlight Archery & Pro Line Co., 804 F.2d 135, 141, 231 USPQ 644, 648 (Fed. Cir. 1986), and King Instrument, 767 F.2d at 864 n.9, 226 USPQ at 409 n.9). The Panduit test in part (2) embodies the

idea stated in other precedent that lost profits for all sales made by an infringer are easier to obtain where there are only two suppliers in the market, the infringer and the patent owner. Kori, 761 F.2d at 653, 225 USPQ at 987 ("when the parties involved in an action are the only suppliers in the market, lost profits are a particularly appropriate measure of damages"); Lam, Inc. v. Johns-Manville Corp., 718 F.2d 1056, 1065, 219 USPQ 670, 675 (Fed. Cir. 1983)(when patent owner and infringer are the only suppliers of the product, causation may be inferred); 5 D. Chisum, supra, _ 20.03[1], at 20-72.

Calco asserts that WTC/WPCS provided no evidence of causation, i.e., that WTC/WPCS would have made Calco's sales. We agree. Noticeably

absent from the court's opinion is any factual finding or findings that WTC/WPCS would have made the sales made by Calco but for Calco's infringement. The court simply stated that WTC/WPCS sought lost proflts and that, under the infringer's profits could be used to estimate a patent owner's lost profits. The court skipped the entitlement issue completely and went directly to the lssue of quantum. On reconsideration at Calco's and Gartner's request, the court added only that the . activities of the defendants caused the "breakup" of plaintiffs' exclusive licenslng agreement, but gave no explanation as to how that establishes causation.

It appears that the court misinterpreted the precedent of our Kori decision in several respects.

Kori is not authority for awarding a patentee's lost profits on the basis of a patent owner's "request," that is, without proof of entitlement. Kori held:

> When a patent holder would have made the sale of a product "but for" the infringement, the award of his lost profits is proper. Paper Converting Machine Co. v. Magna Graphics Corp. 745 F.2d 11, 21, 223 USPQ 591, 598 (Fed. Cir. 1984); Blo-Rad, 739 F.2d at 616, 222 USPQ at 663. . . .
>
> The district court found that Kori would have sold or rented the machines built by Wilco were it not for Wilco's infringement. Although Wilco argued that there were non-infringing substitutes available, the district court's conclusion was based on findings that Wilco "directly competed" for the sale of these machines with Kori, and that "from a buyer's perspective, the only acceptable substitute for the patented Kori machines were the infringing machines." 561 F. Supp. at 526, 217 USPQ at 1306. The court therefore properly awarded damages based on Kori's lost profits for the infringing sales and rentals of Wilco's machines.

Kori, 761 F.2d at 653, 225 USPQ at 987. Only after the patent owner established that it would likely have made all of the sales and rentals made by the infringer did the Kori court address the issue of quantum and the relevance of the infringer's profits in determining quantum.

That the district court here misunderstood the basic theory for award of lost profits, that is, that the patentee would likely have made the infringing sales, is confirmed by its award of lost profits for the entire amount of the infringing sales from 1980 through the trial. Neither plaintiff was in a position over that entire time period to sell the resins or resin products. KSURF has no facilities to manufacture the resin

commercially and, thus, had never made any sales and had no basis for claiming that it would have made the sales Calco made but for Calco's infringement. WTC/WPCS got out of the buslness in August 1982, its license havlng been revoked for non-payment of royalties. To the extent the court awarded plaintiffs' lost profits after August 1982, the court clearly erred as a matter of law. Lost profits could be awarded, at most, for the period during which WTC/WPCS was a licensee and an actual competitor of Calco in the marketplace.

The district court may also have misunderstood that, unlike copyright and trademark infringements, patent infringement carries no remedy of .an accounting for an infringer's profits. That remedy was eliminated by the 1946

amendment of the patent statute and, thus, the infringer's profits are not, as such, a measure of the patent owner's damages. See ####' 761 F.2d at 654, 225 USPQ at 987-88. In fact, in Kori, the infringer's profit margin was used for comparison purposes with the profit margin figure of the patent owner to determine the reasonableness of the latter figure. The Kori court stated:

> However, evidence of an infringer's profits may be relevant to the amount of patentee's damages in certain circumstances. Here, where the patentee can establish that he would have made the sales of the patented products, but for the fact that the infringer made them, the infringer's profits were properly looked at for comparison purposes with the patentee's proof of his lost profits.

Kori, 761 F.2d at 655, 225 USPQ at 988 (emphasis added).

WTC/WPCS counters that, despite

the absence of findings by the court, we should approve the damage award because evidence inn the record shows causation. More particularly, WTC/WPCS asserts that Aqua-Chem exclusIvely licensed WTC/WPCS for water purifying products having a resin slze of 100 cc or less, that Calco's infringement caused WTC/WPCS to lose its excluslve license position, and that Calco's straw purifler was "very similar" to WTC/WPCS's cup purifier. From these facts WTC/WPCS asks this court to infer causation on the theory that a two-supplier market existed here. Lam, Inc., 718 F.2d at 1065, 219 USPQ at 675.

As WTC/WPCS concedes, however, there is no evidence in the record of whether nonlnfringing substitutes existed, of a defined relevant market,

or of any other factors whlch might prove "but for" causatlon between Calco's infringement and WTC/WPCS's lost sales. Although it was unnecessary for WTC/WPCS to negate every possibility that purchasers might have bought another product, Carella, 804 F.2d at 141, 231 USPQ at 648, WTC/WPCS has wholly failed to meet lts burden of proof of entitlement. Yarway Corp. v. Eur-Control USA, Inc., 775 F.2d 268, 275, 227 USPQ 352, 357 (Fed. Cir. 1985). As previously indicated, WTC/WPCS did not have to prove causation as a certalnty, but lt was required to show a reasonable probability that it would have made the sales involving Calco's infringing products. Not only did the district court award lost profits without such

evidence, it made specific findings which tend to negate any possible assertion that WTC/WPCS would have made such sales absent Calco's sales. The district court specifically found "the product [i.e., the water purifying cup] in the hands of WPCS had, at the time of the infringement, achieved no significant marketing success." Slip op. at 33. Moreover, it noted that WTC/WPCS's retail price for its cup significantly exceeded that of Calco's straws.

There is no finding in the district court's decision, either evidentlary or ultimate, that WTC/WPCS would have made sales "but for" Calco's sales. See Bott v. Four Star Corp., 807 F.2d 1567, 1571, 1 USPQ2d 1210, 1212 (Fed. Cir. 1986). Nor has WTC/WPCS pointed to evidence which

warrants a remand ror reconsideration of a lost profits award. WTC/WPCS's failure of proof leaves no alternative but to have damages redetermined upon the basls of a reasonable royalty for the period prior to September 1982 as well as after that date. Thus, we vacate the award in its entirety and remand for damage proceedings consistent with this opinion.

VIII

ATTORNEY FEES

The patent statute permits a district court to award reasonable attorney fees in an exceptional case. 35 U.S.C. _ 285 (1982). Having found this to be a case of willful infringement, the district court's discretionary award of attorney fees was proper. Bott, 807 F.2d at 1574, 1 USPQ2d at 1215; Kori, 761 F.2d at 657, 225 USPQ at 990. In .any event, Calco and Gartner challenge only the amount, not the propriety, of the award.

Because the attorney fee award in thls case was in part for work connected with the now-defunct unfair competition claim, the amount of the award cannot stand. Further, for this court to determine the reasonableness

of the amount of an award, "there must be some evidence to support the reasonableness of, inter alia the billing rate charged and the number of hours expended." Lam, Inc., 718 F.2d at 1068, 219 USPQ at 678; see also Hughes v. Novi Am., Inc., 724 F.2d 122, 124, 220 USPQ 707, 709 (Fed. Cir. 1984) ("While an award of attorney fees is to be reviewed under the standard of whether such award constitutes an abuse of discretion, an award must be set aside if it 1s unsupported by adequate findings of the basis for the award, thereby precluding meaningful review"). Althougn we agree with the district court that a client's blll if sufficiently detailed might substitute for lost billing records, we are unable to find sufficient support in

the record to perform a meaningful review of the reasonableness of the attorney fees award.

Specifically, the district court abused lts discretion by refuslng to lnvestigate the number of hours worked by specific attorneys. We recognize the caseload burdens under which courts labor ln these tL#es, and the caution that the "lssue of reasonable fees should be settled in the most expeditious manner possible." Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288, 298, 160 USPQ 577, 584 (9th Cir. 1969). Nevertheless, there must be some findings, certainly more than an "equitable instinct," supportlng the fee award in order to provide a base for appellate review. Accord Loctite Corp. v. Fel-Pro, Inc., 667 F.2d

577, 585, 213 USPQ 905, 912 (7th Cir. 1981).

Accordingly, we must vacate the award of attorney fees in the amount of $150,000. As we did ln Stickle v. Heublein, Inc., 716 F.2d 1550, 1564, 219 USPQ 377, 387 (Fed. Cir. 1983), however, we vacate without prejudice to the district court awarding attorney fees on remand upon appropriate findings.

IX

In summary, we reverse the award of damages for infringement based on an unsubstantiated theory of lost profits and remand for the dlstrict court to calculate an award based on a reasonable royalty. We reverse the portion of the judgment holding Calco and Gartner llable for unfair

competition. We vacate the award of attorney fees without prejudice to the district court's awarding fees on remand. Calco and Gartner do not challenge on appeal the court's award of prejudgment lnterest. In view of the recalculation of a total damage award required by our decision, a recalculation of the amount of prejudgment interest must be made. Finally, regarding Gartner's separate appeal, we affirm the court's decision to hold Gartner liable for the full amount of whatever damages are awarded. No challenge was made to the finding of willfulness of the infringement; thus, that ruling by the court stands.

X

COSTS

Each party shall bear its own costs on appeal.

AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, AND REMANDED

Note: This Order has not been prepared for publication in a printed volume because it does not add significantly to the body of law and is not of widespread legal interest. It is a public record. It is not citable as precedent.

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

87-1204

WATER TECHNOLOGIES CORPORATION, WATER POLLUTION CONTROL SYSTEMS, INC., and KANSAS STATE UNIVERSITY R#SEARCH FOUNDATION,
Plaintiffs-Appellees,

v.

CALCO, LTD.,
Defendant-Appellant,

and

WILLIAM J. GARTNER,
Defendant.

87-1205

WATER TECHNOLOGIES CORPORATION, WATER POLLUTION CONTROL SYSTEMS, INC., and KANSAS STATE UNIVERSITY RESEARCH FOUNDATION,
Plaintiffs-Appellees,

v.

WILLIAM J. GARTNER,
Defendant-Appellant,

and

CALCO, LTD.,
Defendant.

Before NIES, Circuit Judge, SKELTON, Senior Circuit Judge, and ARCHER, Circuit Judge.

O R D E R

A joint petition for rehearing of appellants Calco, Ltd., and William J. Gartner having been filed in this case,

UPON CONSIDERATION THEREOF, it is ORDERED that the joint petition for rehearing be, and the same hereby is, denied.

FOR THE COURT:

Francis X. Gindhart, Clerk

Date

cc: Mr. Robert E. Wagner
Mr. Michael R. Dinnin

UNITED STATES COURT OF APPEALS
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87-1204

WATER TECHNOLOGIES CORPORATION,
WATER POLLUTION CONTROL SYSTEMS,
INC., and KANSAS STATE UNIVERSITY
RESEARCH FOUNDATION,

Plaintiffs-Appellees,

v.

CALCO, LTD.,

Defendant-Appellant,

and

WILLIAM J. GARTNER,

Defendant.

- -

87-1205

WATER TECHNOLOGIES CORPORATION,
WATER POLLUTION CONTROL SYSTEMS,
INC., and KANSAS STATE UNIVERSITY
RESEARCH FOUNDATION,

Plaintiffs-Appellees,

v.

WILLIAM J. GARTNER,

Defendant-Appellant,

and

CALCO, LTD.,

Defendant.

ON APPEAL from the UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS

in CASE NO(S). 82 C 4330

This CAUSE having been heard and considered, it is

ORDERED and ADJUDGED: AFFIRMED IN PART, REVERSED IN PART, VACATED IN PART, and REMANDED

ENTERED BY ORDER OF THE COURT

DATED_____ _____
Francis X. Gindhart

IN THE UNITED STATES DISTRICT COURT FOR
THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

WATER TECHNOLOGIES CORPORATION, WATER POLLUTION CONTROL SYSTEMS, INC., KANSAS STATE UNIVERSITY RESEARCH FOUNDATION, AQUA-CHEM, INC.	)	
Plaintiffs,	)	No. 82 C 4330
v.	)	
CALCO, LTD., and WILLIAM J. GARTNER,	)	
Defendants.	)	

MEMORANDUM OPINION AND ORDER

On October 22, 1986, this court filed findings of fact and conclusions of law and a judgment order to the effect that the Lambert-Fina '860 and '665 patents and the Hatch '183 and '529 patents which are the subject of this litigation, were found to be valid and to have been infringed by

defendants Calco, Ltd. and William J. Gartner. Plaintiffs Water Technologies Corporation, Water Pollution Control Systems, Inc., and Kansas State University Research Foundation were awarded $520,000 in actual damages plus an additional $520,000 based on the willfulness of defendants' conduct. Plaintiffs were further awarded attorneys fees to be determined after submission of additional pleadings on that subject, and, finally, plaintiffs were awarded pre-judgment interest in an amount to be determined by virtue of a later submission to the court.

There now pends before the court the petitions of plaintiffs and attorneys fees and for pre-judgment interest.

Turning first to the petition of

defendants Calco, Ltd. and William J. Gartner to alter or amend the judgment heretofore entered, there are two principal bases for the defendants' petition. The first is the petition of Calco, Ltd. and William J. Gartner to alter judgment insofar as it provides that defendants are liable to plaintiffs for lost profits, and seeks to substitute therefor as a measure of damages a reasonable royalty formula. The second motion is that of William J. Gartner alone, based upon the contention that Mr. Gartner's activity in connection with the acts of infringement was de minimus and that his personal liability in the matter is not justified. The prayer, therefore, is to vacate the order finding personal liability for Mr. Gartner or to reduce his liability for infringement to

reflect his minimal involvement in the conduct of Calco, Ltd. and his minimal profits realized from the infringement. The court is further asked to specify as a separate figure the extent of personal liability, if any, of Mr. Gartner for the reason that he is not a partner or owner of Calco.

The court turns first to the Calco-Gartner motion to alter or amend by substituting reasonable royalties for lost profits as a measure of damages. Defendants contend that, because the patent holder did not come forward with the necessary affirmative evidence to support an assessment of lost profits, there is no proof as to a reasonable probability of lost profits and the court should have instead assessed reasonable royalties. The court recognized the minimal proof

on the subject of lost profits and adopted therefore the alternative measure of defendants' profits as the measure of damages, and based its assessment of that figure on its acceptance of the testimony before it, despite the argument of defendants in their motion that that testimony was unreliable.

Relying upon their contention that lost profits were not an adequate basis for the ascertainment of damages in this case, defendants turn to a reasonable royalty theory and compute from the evidence a reasonable royalty of $29,900, doubled per this court's conclusion of law No. 111 to a final sum of $59,800. Defendants overlook in this argument the court's conclusion that it was the activities of defendant that resulted in the breakup

of the exclusive licensing agreement enjoyed by the plaintiffs, and that the evidence supported the conclusion that lost profits might be fairly anticipated at the sum established by the court. The court disagrees, therefore, with the contention that the record does not contain an adequate evidentiary support for a lost profits calculation and reaffirms the conclusion that the application of the lost profits measure of damages utilized by the court in this case fairly represented the damage to the plaintiffs and the measure of their entitlement for judgment in a way that, under the circumstances, no application of a reasonable royalty theory could fairly do. The defendants' motion to alter or amend the judgment, therefore, to recalculate the damages

on a reasonable royalty theory, as distinguished from the lost profits theory used by the court, is denied.

The court turns next to the motion of William J. Gartner to alter or amend the judgment. This issue has been addressed before by the court in a ruling of November 12, 1986 from the bench after oral argument, but the issue will be addressed once again in the context of the written pleadings now before the court.

Defendant Gartner requests that the court alter or amend the judgment to vacate his personal liability for infringement or, in the alternative, to reduce his liability for infringement by reflecting his pro rata share of participation in the complained of acts of infringement, with a specific separate Gartner liability figure.

Gartner argues that the dismissal of Aqua-Chem from the lawsuit at the beginning of the trial impacted unfavorably upon his ability to raise the defense that he was not guilty of the theft of the formula from Aqua-Chem nor of a breach of confidence with Aqua-Chem. The presence of Aqua Chem as a plaintiff in this case was by no means necessary in order to enable Gartner to present whatever evidence he had in support of his position that the#e was no misappropriation of Aqua-Chem's resin formula and no breach of confidence when he took the Aqua-Chem formula to Calco.

A review of the court's findings of fact makes clear the role of Gartner as the principal actor in the infringing acts, a role much more major than the de minimus

participation now argued by his counsel, and that Gartner indeed did induce the infringing activities of Calco. This joint liability with Calco is appropriate the circumstances, and Gartner's motion for a vacation of the judgment of October 22, 1986 against him, or for a modification thereof assessing his liability on a minimal basis, is denied.

The court turns now to the motion by the successful plaintiffs for costs and attorneys fees, the liability for which was adjudicated in the order of October 22, 1986, with an invitation to plaintiffs to submit pleadings and evidence in support of their costs and fees application.

The court has before it details supporting an application for an award of costs in the amount of $8,213.82,

and fees in the amount of $228,822.52, together with an application for an additional $7,871.78, described as for trial expenses separately incurred. The court will treat this latter sum as a further application for costs.

Title 35, Section 285 of the United States Code provides: "The court, in exceptional cases, may award reasonable attorneys fees to the prevailing party." This case has, in a previous holding, been determined to be an exceptional case within the meaning of that statute. Plaintiffs' prayer, therefore, for attorneys fees, is a valid one and the court will award attorneys fees under this section to plaintiffs, the prevailing parties. Section 285 refers only to attorneys fees and does not mention costs. The purpose, however, of the statutory

provision allowing the court to award attorneys fees is to compensate the prevailing party for costs that would not have been occurred but for the conduct of the losing party. Morgan Adhesives Co. v. Chemtrol Adhesives, Inc., 547 F. Supp. 832 (D.C. Ohio 1983), aff'd 65 F.2d 158, cert. den., 106 S.Ct 130. To award attorneys fees under such a philosophy and yet leave the plaintiff shouldering the burden of large amounts of out-of-pocket costs incurred would thwart the purpose of the statute, and the section in question must be construed to include the award not only of compensation for time expended, but also a reimbursement of out-of-pocket disbursements necessarily incurred in the prosecution or defense of a case. In any event, Title 35, Section 284, the

section referring to damages, makes it clear that the court has, in addition to jurisdiction to award damages, the authority to add to the damage assessment ". . . interest and costs . . . ." In support of its application for costs and fees, plaintiffs have supplied the court with an itemized and detailed listing of the expenditures claimed as costs and with photocopies of the time records of plaintiffs' firm, in substantiation of the fee claim.

Plaintiffs further remind the court of the complexity and length of the litigation and the resourcefulness and aggressive defense. Plaintiffs point further to the "lodestar" theory of the determination of fees which gives the court the discretion, after having determined the "lodestar," that

is, the fee reasonable for the services performed in the circumstance, to adjust that figure upwards or downwards, depending on a variety of factors such as the quality of representation, success achieved, etc.

The lodestar concept is one that is most often used in the determination of fees for counsel for plaintiffs who have been successful in a class action and will have fees awarded out of the fruits of their endeavor. The contingency aspect of the fee claim is a factor. The concept is not deemed applicable here. It is the intention of the court to determine the reasonableness of the claimed attorneys fees by judging the appropriateness of the hourly rates and the number of hours charged to the pursuit of the litigation. Both the

reasonableness of the hourly rates and the reasonableness of the amounts of time expended vis-a-vis the issues and complexity of the case will be considered. The court will recognize further that there is a difference, though a subtle one, between the fee claim of a defendant hailed unconnto court to defend itself and a plaintiff, as in this case, forced to file a declaratory judgment action in order to establish the validity of a patent and to bar its infringement. The difference in approach as between these two types of cases is real, although the effect on the ultimate determination of the fee will not be unduly significant.

Addressing first the issue of costs, defendants object that plaintiffs have not complied with the

requirements of 28 U.S.C. Section 1924, requiring verification of a bill of costs before costs may be taxed. Plaintiffs have corrected this omission with a subsequent affidavit, and the requirements of that section are now deemed satisfied.

Defendants further challenge plaintiffs' application for costs with the argument that deposition costs are taxable only if the depositions are shown to be reasonably necessary to the case and that both depositions and other expenditures of time and costs related to the Aqua-Chem issues in the case are not properly chargeable by virtue of the dismissal of Aqua-Chem at the outset of the litigation. The same argument is made as to costs and other expenditures incurred in connection with the aspects of the case

involving Robert Kalnitz, dismissed from the case by the court. The court agrees with these contentions. These and other much less monetarily significant objections of defendant to the plaintiffs' claim for costs require a reduction of the plaintiffs' cost claim in the amount of $3,158.66. The court does not accept defendants' contention that travel expenses in connection with the taking of out-of-town depositions are not taxable costs.

The court turns to the allegation of defendants' attack upon plaintiffs' application for costs, to the effect that the record contains an admission of the loss of billing records at plaintiffs' law firm for the year 1983 and for the period May, 1985 through January, 1986, and attacks the substitute basis for calculation of

these expenditures adopted by the plaintiffs, that is the reliance upon bills submitted to the client. The court has a statement from plaintiffs' counsel that the bills submitted to the client have, at this state of the proceedings, been paid. The court will accept these bills as a reliable indicia of attorneys fees in lieu of the lost time records, and the loss on the part of the defendants of an opportunity for detailed examination and analysis of time records will be compensated for as part of an overall reduction of the plaintiffs' claim in an amount estimated by the court to achieve a more equitable assessment of the costs to the defendants of the plaintiffs' reasonable efforts expended in this litigation.

In consideration of the

foregoing, it is the decision and judgment of the court that plaintiffs' application for costs in the total amount of $8,213.82 be reduced by the sum of $3,158.66, and costs are therefore awarded to plaintiffs in the amount of $5,055.16.

Turning to the fee application, the court accepts as reasonable hourly rates set forth in the application applied to the time of the various lawyers involved in the litigation. The objection of defendants that legal activity related to the presence in the litigation of Aqua-Chem should not be deemed as appropiately chargeable time is valid, and cognizance will be taken of this issue in the final determination.

Finally, the court, in the assessment of an appropriate and

reasonable fee award in this case will take into account the inevitable consequence of having a number of attorneys assigned to a single case, that is, the consequence of virtually unpreplication of time and from the helpful point of viewewew at hindsight, the unnecessary attendance of more than one attorney at various junctures in the litigation.

The application of all of these foregoing principles and considerations leads the court to the conclusion that the prayer for attorneys fees in the amount of $244,908.12 must be reduced. No quarter hour by quarter hour analysis of time records or attorney by attorney analysis of billings in this case is possible, given the caseload burdens under which courts labor in these

times. It is the equitable instinct of the court in this case which dictates the extent of the appropriate reduction of this request. The court awards, therefore, attorneys fees to prevailing plain amount of $150,000.

This opinion turns now to the subject of pre-judgment interest. Plaintiffs have provided the court with a proposed order reflecting the fact that on October 22, 1986, judgment was entered for the plaintiffs in the above-entitled case and that that judgment specifically granted pre-judgment interest. Damages awarded in that decision were in the amount of $1,040,000, and the interest on this sum should be calculated over a five-year period commencing in 1981. With widely fluctuating interest rates during this five-year period, the

ascertainment of the appropriate interest rate is difficult. Plaintiffs have attempted to compensensate for this fluctuation by a table assessing the interest rate, athings, defendants argue that the results achieved by plaintiffs in their interest calculation is the sum of $628,900 awarded to plaintiffs in interest over five years on a $520,000 judgment. Defendants further argue that the base amount to which the interest should be applied is not $520,000 but $420,000, since the court's findings and conclusions recited $420,000 awarded in damages to compensate for lost profits and an additional $100,000 to compenst marketing opportunities. Defendants argue that 35 U.S.C. Section 284 provides only for interest on patent infringement damages, that is, the

$420,000 figure. It is true that this is the import of this section, but it is not true that it therefore implies that ,there is a limitation on the court's ability to award pre-judgment interest for the balance of the judgment.

The court will therefore award pre-judgment interest on the sum of $520,000 over the five-year period which embraces the activities of defendants in violation of plaintiffs' rights. Losses to the plaintiffs accumulated over the five years and were not totally present over each year of the entire period. The spread of the $520,000 over a five-year period to utilize a formula approximating a just result in this case would result in a principal of $104,000 for the first $208,000 for the

second year, etc. Applying the prime rate plus one percent in the plaine to each of those years cumulatively results in the

In addition to the authority afforded in the plaintiff statute, the court has authority generally to award pre-judgment interest. See Bricklayers' Pension Trust Fund v. Taiariol, 671 F.2d 988 (6th Cir. 1982). The calculation of the court in accordance with the above-described formula appears in tabular form as follows:

	Principal Sum	Interest
Rate	Interest for Year	
1981	$104,000	16.75%
	$17,420	
1982	$208,000	12.5%
	$26,000	
1983	$312,000	12.0%

	$37,440		
1984	$416,000	11.5%	
	$47,840		
1985	$520,000	10.5%	
	$54,600		
1986	$520,000	8.5%	
	$37,802*		

*Computed as of October 22, 1986

In accordance with the calculations above, the pre-judgment interest awarded plaintiffs is the sum of $221,102.

The court turns finally to the motion of Robert B. Kalnitz under Rule 11 of the Federal Rules of Civil Procedure. It is Mr. Kalnitz's contention that presentation of the plaintiffs' case demonstrated the total lack of evidence of infringement by defendant Kalnitz, and that this court's dismissal of all claims by the

three plaintiffs against Kalnitz at the close of the plaintiffs' case confirms this contention. Kalnitz requests that the plaintiffs be directed to pay his reasonable attorneys fees.

Plaintiffs respond that, in reaction to allusions to Rule 11 by defendant's attorneys before the court, they filed with the court on June 21, 1985 a ". . . memorandum of law, requirements of Rule 11 . . ." which they append to their response to the Kalnitz motion for Rule 11 sanctions and which Kalnitz gs was a pleading not required by the court, the filing of which was in the form of an admission of concern of plaintiffs for their Rule 11 liability. It is the essence of defendant Kalnitz's argument that plaintiffs, in naming him as a

defendant in a suit on four patents, adopted a position inherently contradictory in that plaintion evidenced before the litigation and in the course of answering interrogatory No. 2, made it clear that the plainheir licensing agreement with Aqua-Chem, limited that agreement to triiodide-impregnated resins and to rights under patents No. '860 and '665. By contrast, the '183 and '529 patents include polyiodides and could not have been infringed by Kalnitz. Kalnitz adds that an analys#s of the resins prior to the filing of the lawsuit would have revealed the inappropriateness of including Kalnitz as a defendant.

Plaintiffs rely on the right of litigants to file inconadings, which the court recognized in an earlier

Plaintiffs respond that the trial evidence and exhibits demonstrate an adequate investigation of infringement prior to the filing of the lawsuit and an adequate factual basis for the conclusions expressed in the original complaint. The court agrees that a reasonable basis for the conclusion that infringement had occurred was present at the time of the filing of the complaint, as demonstrated by the evidence produced thereafter. The court agrees with plaintiffs that the argument that Kalnitz as an individual might be separated from the activities of the corporae controlled, as was obviously the result achieved at

It is the conclusion of the court that conduct of plaintiffs and plaintiffs' counsel in the inclusion of

Robert Kalnitz as a defendant in this case was reasonable under the circumstances known to counsel at the time and, under the rule applicable at that time, was not a demonstration of bad faith such as to justify the imposition of sanctions, and the motion of Robert Kalnitz for Rule 11 sanctions is therefore denied.

It is the belief and understanding of the court that all outstanding post-trial motions in this case are addressed by and have been adjudicated in this memorandum opinion, and the summary of the rulings is as follows.

Petition of plaintiffs for costs and attorneys fees is granted in the amounts of $5,055.16 for costs and $150,000 for attorneys fees. Petition of plaintiffs tor pre-judgment interest is granted in the amount of

$221,102. The motions of defendants Calco and Gartner to alter or amend the judgment of October 22, 1986 is denied. The motion of defendant Robert Kalnitz for Rule 11 sanctions against plaintiffs is denied.

ENTER:

UNITED STATES DISTRICT JUDGE

DATED: January 28, 1987

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that three copies of the foregoing **PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT** were served by first class mail, postage pre-paid addressed as follows:

Michael R. Dinnin, Esq.
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1500 North Woodward Avenue
Birmingham, Michigan 48011

Counsel for Respondents

October 13, 1988

Robert E. Wagner
Robert E. Wagner